HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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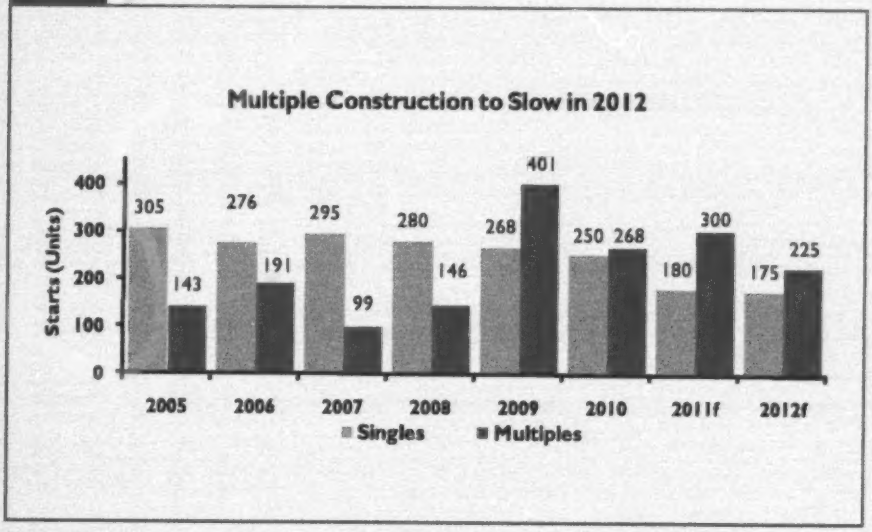
Housing Activity to Decline Slightly in 2012

Throughout most of the last decade, the Charlottetown area recorded levels of demand that have been above the norm for all forms of housing. In contrast the forecast for 2012 points to a year of declines rather than continued growth. While PEI experienced the smallest decline in economic growth of all the provinces during the economic downturn, the corresponding rebound has been equally modest.

Employment growth has remained positive in the first eight months of 2011 with this trend expected to continue into 2012. More than half of all jobs in the capital region are in the service sector and this was

Figure 1



Source: CMHC

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the primary source of job creation during the first eight months of 2011. Activity in the construction industry, which was a leader in job creation over the past four years, declined in 2011, as commercial construction and infrastructure related construction began to slow. This has resulted in a decline in employment in this sector compared to last year. The most positive aspect of the employment growth recorded in 2011 is that all of the gains were from full-time positions, which typically have a stronger impact on housing demand. The forecast for employment in Charlottetown calls for a new record high this year, followed by a slight decrease next year.

During the first eight months of 2011, the unemployment rate rose to approximately eight per cent after falling during the same period in 2010. The unemployment rate increased despite the rise in employment levels as advances in the labour force outpaced the growth in employment. Strong gains in the labour force are attributed, in part to the high levels of in-migration to the capital. While employment growth is expected to moderate in 2012, the labour force will expand again due to continued in-migration resulting in the unemployment rate rising further in 2012.

Migration to the capital region has been a positive factor for housing over the past four years and expectations point to another year of positive net-migration in 2011. Since 2006 there has been a steady and increasing inflow of people from international locations, culminating in a record level of almost 1,800 people in 2010. Results for 2011 are expected to be similar to 2010. This will primarily benefit the capital region as the majority of people are settling

Figure 2

Source: PEI Real Estate Board, CMHC Forecast
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in the Charlottetown area. This trend will continue to provide support to the local housing market, and specifically the rental market, in the coming years assuming an extension of the provincial programs targeted at attracting international migrants.

While the area is able to draw international immigration, there is still a net loss of people to the other areas of Canada. The draw of the West is neither new nor unexpected in the Maritime Provinces, as residents have been moving westward in search of employment for many years. While employment opportunities in the West decreased during the economic downturn and people returned, this trend has once again reversed with the resurgence in the price of oil. As such, it is expected that out-migration, especially among the 19-24 year old age category, will increase over the forecast period as people are attracted westward by employment opportunities and high wages.

In general, the housing market in the Charlottetown area will begin to slow in the latter part of 2011 and into 2012. The single-detached home market will decline given the employment and migration outlook. In contrast, multiple starts will record more substantial declines due to a situation of temporary oversupply resulting from three years of above average construction. It is also expected that the resale market will see some declines in total sales, while the average price will continue to climb.

Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage

rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

MLS® Sales to Moderate in 2012

The Charlottetown resale market has been relatively stable for the past decade or so. During the past ten years, there has been little change in sales relative to the ten year average of 580 units. It is expected, however, that the economic and demographic shifts which are occurring will impact the resale market in 2012.

Demand for existing homes is expected to decline over the forecast period. One of the main reasons for the decline will be muted household growth as positive international migration is being somewhat offset by an outflow of people to other parts of the country. Combine this with the anticipated weakness in employment growth and the overall impact will be a reduction in demand for resale homes compared to the previous two years. MLS® sales are forecast to decrease in 2011 to 525 units and then experience another decline in 2012 to 475 units.

The average sales price will increase again this year and next, though at a much smaller level than seen in recent years. Although prices will see some downward pressure given reduced demand, continued popularity of houses in the newer and higher priced subdivisions will support advances in average sales price. The average sale price is expected to come in at $185,000 this year, and $189,000 in 2012.

Almost 70 per cent of MLS® sales in the Charlottetown CA are under $200,000. Sales of existing homes which are over $250,000 make up less than 16 per cent of total sales. While rising home prices can create challenges for buyers, it should be noted that 39 per cent of sales in 2010 were under $150,000. This indicates that a significant portion of the market is reasonably priced even for first-time home buyers.

Apartment Construction to Decline from Unusually High Levels

New home construction in the Charlottetown region will decline by seven per cent this year primarily due to declines in single starts. The forecast for this year will see multiple unit starts increase by 12 per cent to 300 units compared to the 268 units started last year.

The level of multiple unit construction has been well above the average since 2009, when a record 401 units were started. During this three year period, approximately 1,000 units have been added to the local housing market, with more than 600 of these units being added to the rental market. It is expected that multiple starts for the homeownership market, will increase over the forecast period due to higher new home prices and an aging population looking for more maintenance free housing options. However, expect to see rental starts decline as the vacancy rate increases, and the absorption period for new developments begins to lengthen. The expectation for 2011 is for an additional 300 multiple units, before slowing to 225 units in 2012.

Single-detached home construction will remain well below the levels recorded in 2010. Although the year began with similar levels to 2010, the number of new starts has been declining as the year progressed. This trend is expected to continue for the remainder of 2011 and into 2012, albeit, at a more subdued pace. As such single-detached starts are expected to decline to 180 new units in 2011and remain flat at 175 units in 2012.

There are several variables impacting the local housing market, which will keep single starts at lower levels over the forecast period. One of the most significant variables is migration, which although positive, is not going to be as supportive of new starts as in years past. The reason for this is that inter-provincial migration has turned negative and the higher levels of new international migrants are more likely to purchase an existing home than build. The cost of building will also limit new starts over the forecast period, as the rising costs of land and labour continue to push up average prices. As such, many potential home buyers will look to the existing market for their housing needs. Also expect to see the number of homes built on speculation to decline in both 2011 and 2012, as builders take a more cautious approach over the forecast period.

The average price will also rise at a more moderate pace over the next two years. While there is no doubt that consumer's preferences lean toward larger, more elaborate homes, this will begin to be tempered by the ever rising price.

Vacancy Rate on the Rise

Vacancy rates began to rise this year as the number of new units coming on the market began to increase. The vacancy rate advanced from 2.7 per cent in April of 2010 to 4.9 per cent in April of this year. This trend will continue into 2012, as the vast majority of new rental units built over the last two years begin to impact the vacancy rate this year and next. The increased level of construction and new supply will lead to the average vacancy rate increasing to between 5.5 and 6.0 per cent in the fall of both 2011 and 2012.

Average rents will increase as a result of the 3.2 and 2.0 per cent allowable rent increase for heated and unheated units respectively, which was approved by the Island Regulatory and Appeals Commission for 2012. More significantly though are the large number of new units entering the market at higher prices, which will eventually increase the average rent, as these units tend to be more expensive than the existing units. The newest units also tend to be the largest and offer a higher number of amenities to prospective tenants. Two bedroom average rents are expected to be $740 this year and $755 in 2012.

Forecast Summary
Charlottetown CA
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	595	531	611	525	-14.1	475	-9.5
MLS® New Listings	975	786	875	850	-2.9	800	-5.9
MLS® Average Price ($)	175,231	177,237	179,813	185,000	2.9	189,000	2.2
New Home Market							
Starts:							
Single-Detached	280	268	250	180	-28.0	175	-2.8
Multiples	146	401	268	300	11.9	225	-25.0
Starts - Total	426	669	518	480	-7.3	400	-16.7
Average Price ($):							
Single-Detached	207,361	242,674	235,703	250,000	6.1	255,000	2.0
Median Price ($):							
Single-Detached	200,000	210,000	220,000	226,600	3.0	233,409	3.0
New Housing Price Index (% chg.)	1.4	0.9	-1.6	0.8	-	0.9	-
Rental Market							
October Vacancy Rate (%)	2.3	3.4	2.3	6.0	3.7	6.0	0.0
Two-bedroom Average Rent (October) ($)	672	701	731	740	-	755	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level (,000)	32,575	32,325	33,900	34,600	2.1	34,900	0.9
Employment Growth (%)	0.0	-0.8	4.9	2.1	-	0.9	-
Unemployment Rate (%)	7.6	8.7	7.9	8.0	-	8.2	-
Net Migration (P.E.I.)	1,253	1,689	2,253	1,800	-20.1	1,400	-22.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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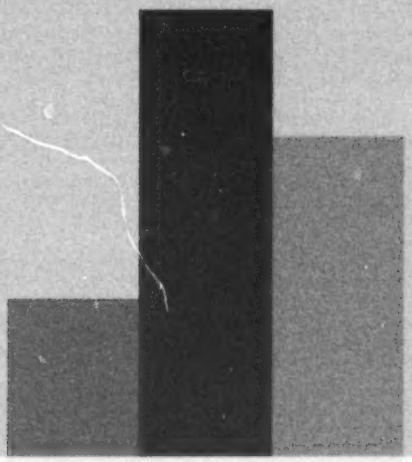

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